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C O N F I D E N T I A L SECTION 01 OF 03 WELLINGTON 000719

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SUBJECT: NZ ELECTIONS: TWO-WEEK WAIT TO SEE WHO'S WON THE
BATTLE, BUT LABOUR'S ALREADY LOST THE WAR

REF: WELLINGTON 715

Classified By: Charge D'Affaires David R. Burnett,
for reasons 1.4(b) and (d).

1. (C) As predicted, New Zealand's September 17 General Elections were the closest in years. Despite starting the evening well ahead, the opposition National Party ended up one Parliamentary Seat behind the Labour Government. But the Nats refuse to concede defeat and Labour has not declared victory, as absentee ballots totaling 10% of votes remain uncounted. Both major parties will be courting possible coalition partners in the two weeks before the final tally is announced. We suspect Labour will ultimately be the party to put together a government, but it may come at a high cost. Both United Future and NZ First have expressed reluctance to work with the Greens, NZ First's leader Winston Peters remains as unpredictable as ever, and the Maori Party's sweep of 4 of 7 Maori seats have left it strongly placed to negotiate the terms of its participation.

2. (C) It's still not impossible for National to form a government. Potential coalition partner the Act party, all but assumed dead, has won 2 seats. There is also a chance that the Greens will disappear during the final ballot count: their 5.07% of the party vote is barely above the minimum needed to stay in Parliament. If they fall below the threshold, the Greens' share of the vote would be reallocated among all parties, to National's advantage. The Maori Party has also said it remains open to coalition talks with the Nats, although we consider a final deal unlikely. Even if National loses the election, however, in many ways it has already won the future. The party has doubled its seats in Parliament and taken 11 electorate seats from Labour. It has also swept up almost all of the seats that the minor parties have lost. Most significantly, NZ's electorate has clearly moved to the right, a fact not lost on Labour. End Summary.

WHERE THINGS STAND

3. (SBU) It was -- is -- the closest of races. While initially National appeared in the lead by a substantial margin, in the end it received 39.63% of the party vote (49 seats), just behind Labour's 40.74% (50 seats). Labour's party vote share remained virtually unchanged from last election, so most of National's gain came from the small parties. NZ First garnered just 5.8% (7 seats, down from 13), and leader Winston Peters may have lost his electorate seat to National in a nasty, hotly contested race. United Future got 2.72% (3 seats, down from 8), and the Greens clocked in just above the party vote threshold at 5.07% (6 seats, down from 9). In an unexpected turn, Act Leader Rodney Hide surprised virtually all observers (except Hide himself) and won an electorate seat. But with just 1.52% of the party vote, Act will have just two seats in Parliament, down from nine. Jim Anderton's two-person Progressive Party just got tinier -- with 1.21% of the party vote, only Anderton will return to Parliament. The real minor party winner was the Maori Party, which won 4 of the 7 designated Maori seats. Because they have two electorate seats more than they are entitled to through their party vote share, there is now a Parliamentary "overhang." The number of total seats will be 122 for the next three years and, significantly, the number of seats a major party bloc needs to hold a clear majority has increased to 62.

4. (SBU) On election night, a clearly shattered Helen Clark thanked voters for making possible Labour's return to power and said she would begin to negotiate a government. Clark also reminded voters that she has the experience to do this. But with 219,000 "special votes" (absentee ballots) outstanding, the buoyant National leader Don Brash has refused to concede. He has pledged he, too, will negotiate with minor parties to try to form a government during the two weeks it will take to count the special votes and recount all

the regular ballots. At this point the numbers seem against National, although Labour will have problems in its negotiations as well. While it is unlikely, the recount could also change the picture dramatically.

WHAT HAPPENS NEXT: DO THE MATH

15. (SBU) If the Greens' count holds, Labour (with the Progressives) will have 57 seats. But for the remaining 5 seats things get harder. United Future has pledged to "talk first" with whichever major party wins the most votes, but leader Peter Dunne has made it very clear he will be hesitant to join in with any government that formally includes the Greens. NZ First leader Winston Peters similarly pledged to support whichever major party was ahead, but on election night he noted that, given the narrow margins separating Labour and National, it was too early to confirm the leader. Peters, too, has expressed reservations about the Greens. He now has gone on leave and reportedly did not return PM Clark's call yesterday, perhaps in payback for her failure to call him at all in 2002. Clearly, Peters hopes to be a kingmaker and is likely to talk with both major parties during the two week ballot count. The Maori party is a potential partner for Labour, but just before the election the party softened its automatic rejection of a possible coalition with National because of that party's opposition to special Maori Parliament seats and bureaucracies. The Maori now say they will talk to any party that approaches them, and will let Maori Party constituents decide through public meetings which government coalition to back. At the very least, this puts the Maori Party in a much stronger position to get what it wants in return for supporting a Labour-led Government. The resulting deal could be very unstable, given Clark's unwillingness to concede to Maori demands that she backtrack on Labour's foreshore and seabed legislation.

16. (SBU) Because of the UF/Green issue, sources in Parliament tell us that they believe the likely Labour coalition would be Labour-Progressive-United Future, with the Greens in a confidence and supply voting arrangement. This assumes, as is rumored, that the Greens recognize there is no other way they can be in government. This would still only give Labour 60 votes, which it may be able to make up with Maori party support (although as noted this will create its own problems). However, without United Future, National can probably do no better.

17. (SBU) National's only reliable coalition partner is Act, and together the two parties have 51 seats. If NZ First were to back down on its pre-election pledge, or if National squeaks ahead in the recount, that would make 58 seats. If United Future opted out of a Labour-led coalition government, say because the Greens insist on being in a formal coalition, that would give National's bloc 61 seats. Brash has also made it clear that he has not ruled out talking with the Maori Party. Although on social issues Maori are quite conservative, the odds of them actually backing National are limited unless National backs down on its pledge to eliminate the Maori seats. It's not entirely impossible, however, that National could find a compromise. It's worth remembering that the Maori Party was founded in protest against Labour's Foreshore and Seabed policy, and co-leader Turia reportedly despises PM Clark. It would also not be necessary for the Maori Party to back National. By simply not supporting either major party, National would still have one more seat than Labour.

18. (SBU) In reality, however, the only likely way National could form the Government is if the Greens lost their party vote share after the recount, and/or National's own share increased over Labour's. The Green vote would be reallocated to all remaining parties, and the boost to National would enable them to form a majority with fewer minor party seats. Labour, meanwhile, would lose its largest sure-bet partner, and would find it difficult to compensate. In the past two elections, however, the Greens have picked up support (and seats) from the special voters, a large number of whom are students. If the same holds true this election, National is unlikely to benefit from the Greens' loss.

IT'S LABOUR'S LOSS, REGARDLESS

19. (C) Even if Labour forms a Government, it has in many respects lost this race. Just five months ago, virtually all political analysts (including many in the National Party) predicted a clean sweep in these elections for the Government. As a result of National's campaign, a reelected Labour would be badly weakened, and perhaps unable to pass much of the legislation it would want this Parliamentary session.

110. (C) PM Clark, an astute politician, must also realize

that the nature of Labour's narrow win (or loss) spells trouble for the party's future. Many MPs close to the PM (including Trade Minister Jim Sutton) lost their electorates and will return to Parliament as list candidates. Others saw their margins of victory dramatically clipped: Labour lost 10 electorates to National and Labour's margins in 29 of the 31 electorates it maintained were sharply reduced. The country is clearly moving to the right.

11. (C) National, on the other hand, is on the upswing. After 2002's dismal showing of 21%, many predicted the Nats would soon become a minor party. Yet under Don Brash, they have gained 11 electorate seats and almost doubled their total seats in Parliament. In strong contrast to PM Clark during her election-night speech, Brash appeared totally confident. Labour's obviously weakened position is also giving National a boost. One National candidate told us that she and others who lost their races have been instructed not to stand down their campaign teams. The party leadership anticipates that even if Labour forms the Government, it's fragile coalition will not last a full three years.

13. (C) As for Don Brash's future, the party he leads is credible once more, and will be capable of mounting an effective opposition to a decidedly weakened government. He may actually prefer this to squeaking to a victory this time around. Indeed, we suspect that given the tight margins and divided electorate in this race, neither major party really relishes the chance to take over the reins.

Burnett